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Budget Message

September 30, 2008

Flathead County Commission & Residents of Flathead County:

This document is the Approved Operating and Capital Budget for the Flathead County, Montana for the fiscal year ending June 30, 2009 (FY 09). A summary of the Final Budget follows.

Overview of Budgeted Resources

The following table depicts the projected beginning balances, estimated revenues, recommended budgeted expenditures, and projected ending balances for FY 09. All county funds are included in the foregoing budget. The table reflects estimated revenues of \$65.0 million, budgeted expenditures of \$69.6 million, resulting in a projected ending balance of \$40.7 million, for all funds. An explanation of the significant changes in fund and cash balances (those greater than 10%) is provided on the following page.

SUMMARY OF MAJOR REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES/USES July 1, 2008 through June 30, 2009 (FY 09)

	Governmental Fund Types				Proprietary Fund Types		Total All Funds
	General	Special Revenue	Debt Service	Capital Project	Enterprise	Internal Service	
Projected Beginning							
Fund/Working Capital Balance	\$ 3,255,579	\$ 13,676,696	\$ 743,568	\$ 5,784,864	\$ 19,400,450	\$ 2,379,569	\$ 45,240,725
Total Estimated Revenues	8,602,635	41,706,313	-	2,342,193	8,171,385	4,377,193	65,199,719
Budgeted Expenditures	8,945,135	45,692,089	-	3,360,950	7,464,277	4,201,000	69,663,451
Projected Ending							
Fund/Working Capital Balance	\$ 2,913,079	\$ 9,690,920	\$ 743,568	\$ 4,766,107	\$ 20,107,558	\$ 2,555,762	\$ 40,776,993

Listed below are explanations of the significant changes in fund balance/cash, for each of the major fund groups.

General Fund

- The projected change in Fund balance is projected to be an overall decrease of 11% or about \$342,500. As a direct result of decreases in non tax revenues there is a net decrease of \$325,900.

Special Revenue Funds

- Special Revenue Funds are projected to decrease 29% overall. The Flathead Community Health Clinic was added into the budget for FY 09. This fund is budgeted for approximately \$1.2 million in expenditures.

Debt Service Funds

- Debt Service Funds show no change for FY 09. Most of the ten existing Special Improvement Districts which compose all of the funds in this group will decrease each year as this debt is paid off. With the increase in home sales many of the assessments are paid off early which is used to pay the debt down.

Capital Project Funds

- The Capital Project Funds show a net decrease of 18% or about \$1 million. The 3rd floor addition to the Earl Bennett Building is budgeted for approximately \$2.1 million. The new software for the 911 program is budgeted for \$1.1 million. These two funds show the most significant changes of the Capital Project Funds. The County Building projects fund is projected to increase \$600,000.

Enterprise Funds

- Decreased expenditures in the Solid Waste Trust Funds and Land Purchase Account comprise the 4% increase, or \$707,108 in the Enterprise Funds.

Internal Service Funds

- Approximately \$4.2 million is budgeted for the group insurance for FY 09. This is a result of rising health care costs.



Planning Processes

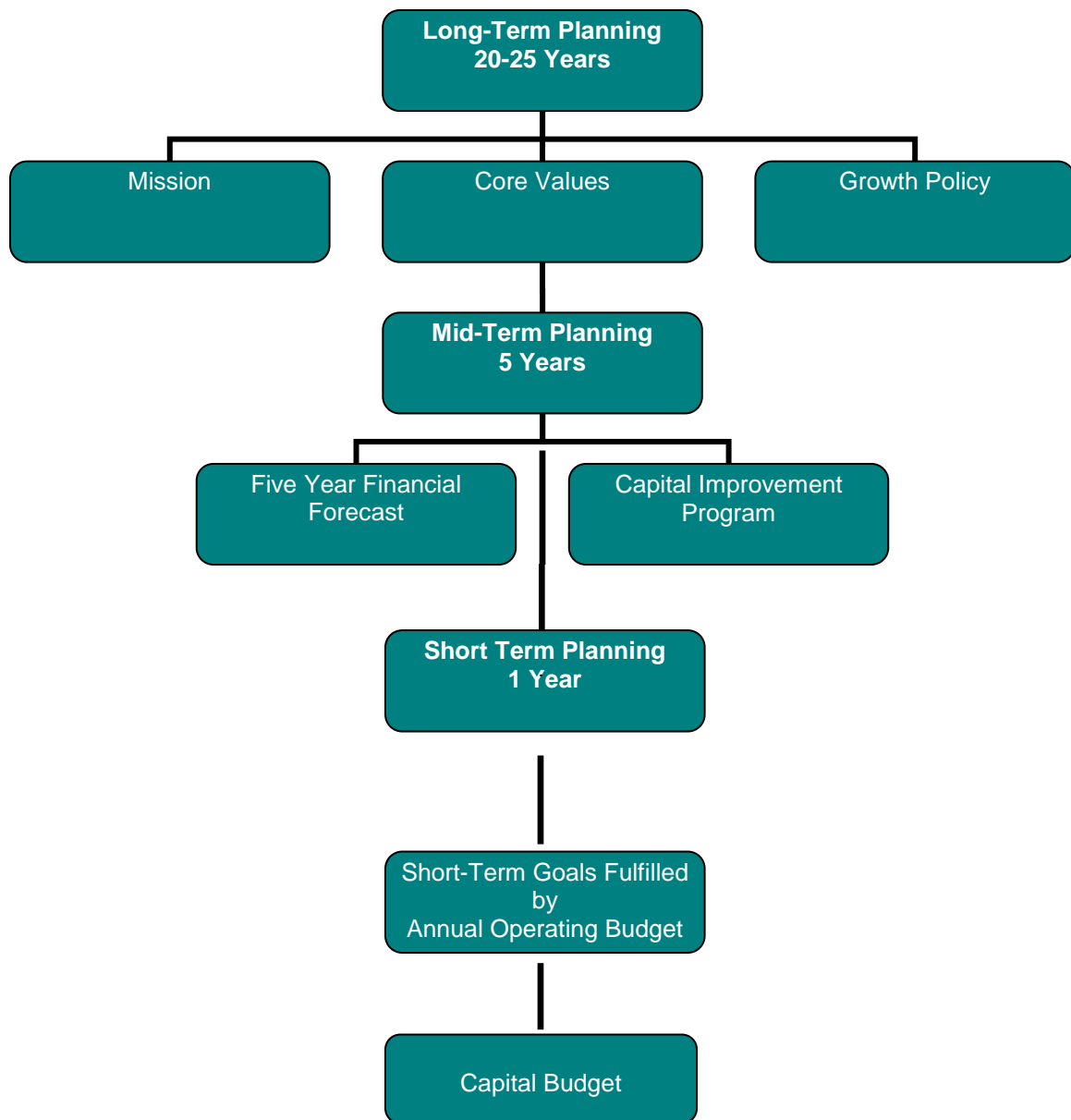
Flathead County conducts various planning processes (long-term, mid-term and short-term), to help guide the government and to insure that decisions are made in the context of the organization as a whole and with a long-term perspective. Diligent efforts are made to insure each of these component planning processes are in concert with one another. This so called “Linkage” is paramount to insure short-term decisions are consistent with the overriding values embodied in the mid-term and long-term planning processes adopted by the County Commission.

Each element of the County’s planning process has a different purpose and timeframe. The County’s Mission, Core Values Statement and Growth Policy are the most far-reaching in nature—20 to 25 years.

The Capital Improvement Program and the Five-Year Financial Forecast are mid-term in nature—5 years. The Annual Budget and the Capital Budget are short-term—covering a 1 year timeframe. The most important requisite is that they are coordinated efforts.



Shown on the following page is a hierarchy of the County’s layered planning processes, all which support one another and are designed with a common goal. The chart depicts how the Annual Operating Budget and the Capital Budget fit within the County’s planning process hierarchy.



Strategic Plan

Strategic planning suggests ways (strategies) to identify and to move toward desired future states. It consists of the process of developing and implementing plans to reach goals and objectives. Within government, strategic planning provides guidance for organizational management similar to that for business, but also provides guidance for the evolution or modification of public policy and laws. Areas of such public policy include: funding of infrastructure and rate-setting and functional plans such as the County's Comprehensive Plan for land use, and the Flathead County transportation plan.

The Strategic Plan is an ongoing dynamic process that will give residents, taxpayers and interested persons a greater understanding of county government. The strategic plan focuses on performance. It provides for measurable goals and objectives the County intends to achieve.

As part of the Strategic Planning Process, the county created a set of strategies to help guide the organization. These range from philosophical strategies (Mission Statement) down to concrete achievable goals for the coming year. Shown below are the results of these planning processes.

Flathead County Strategic Direction

Mission Statement

***We provide responsive and accountable services to
protect and enhance the Flathead community.***

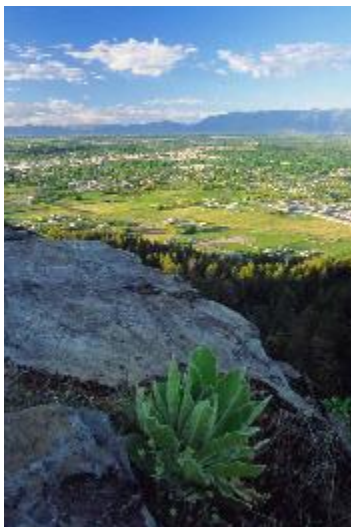
Our Core Values

- **Accountable stewardship of taxpayer resources**
- **Respectful and responsive communication**
- **Professional service with quality and integrity**
- **Proactive and innovative leadership at all levels**
- **Creating a positive team culture that values all people**
- **Safety and security throughout the County**
- **Equal treatment for all**

A Statement of Core Values is an important tool for an organization. The core values:

- Reflects the shared priorities of the organization's people
- States the operating principles or rules of a group of people
- Serves as a training and orientation tool for new employees
- Gives the "customer" an idea about what to expect
- Reinforces the priorities of the organizational culture

Flathead County Goals – Short-Term Initiatives – Principal Issues – Proposed Action



The county also created a set of short-term goals. The short-term goals are those that guide the development of the budget for the coming year.

Listed below are the county's goals, contained in its most recent "**Business Plan**", that help guide the development of this budget.

Performance Budgeting and Management Project

- Continue to work closely with each department/office to create the annual budget with goals and business/action plans to allow appropriate measurement of performance for the benefit of the public we all serve.
- Departments and offices will continue to report on progress to the commissioners on a regular (monthly, bi-monthly or quarterly) basis.

Management Team Contracts

- Create a new contract form that provides for performance based expectations that are tied to the annual budgeting process.
- The contract will also provide for performance related to safety issues/programs and full compliance with County policies and procedures.
- The contracts will also provide a level of security for the management team members.

Personnel Management Improvement

- Continue with educational programs for management and staff in the area of personnel management to assure compliance with county policies and procedures and state and federal laws.
- Encourage continued review of operations with staff members to assure we are providing services in the most efficient and effective ways.

Safety Programs

- Continue our efforts to provide safety training and education programs as needed throughout the county organization.
- Safety is the management team's number one priority and we will work to become totally proactive in our efforts to address the safety of our employees and the public.

Capital Improvement Plan Program

- We are in the second year of utilization of the overall capital improvement plan for the county.
- We will create a process/procedure to annually update the plan and to accept amendments and new projects/equipment requests so the document will continue to provide an accurate budgeting tool.

Financial Reports

- Continue to provide various timely and meaningful reports to the commissioners and public on our financial status.
- We will provide an annual report for the benefit of public with narrative and financial information summarizing the activities and costs incurred to provide public services.

Building Facility Needs

- We are moving forward with a third floor expansion of the Earl Bennett Building to house the new public health clinic with operational funding being provided with state funding. There will potentially be some temporary space available for other county campus needs that we are exploring.
- It is likely that a bond issue will be on the November 2008 ballot to generate revenue to allow for construction of new E-911/communications/emergency services center.
- We are actively looking at opportunities to relocate the AOA program to a different facility.
- We plan to construct the first phase of an administration building to house the county treasurer and clerk/recorder staff in 2009. This new building will be similar in size and appearance to the Earl Bennett Building.
- The parks department is still considering a plan to purchase or build a gymnasium for public recreational uses.
- The library board is continuing to evaluate options in regard to their building needs and have a citizen committee in place to assist.
- We have received updated cost estimates for a major jail expansion and for additional expansion of the justice center to provide space due to growth in those operations. It appears we will soon have a fourth judge and additional space and staffing will be needed. We consider the best time to put a bond issue on the ballot to provide the needed revenue to fill these needs.

Surplus Property

- The County will pursue the concept of selling surplus land parcels to provide funding for various building facility needs.

Energy Performance Contracting

- Johnson Controls is continuing with the installation phase of the energy performance contract.
- We will follow up with Johnson Controls to verify that the energy cost savings will be adequate to repay the debt required for the new equipment and controls at various county facilities. If projected energy savings calculated by Johnson Controls is not realized, they are responsible for the difference needed to meet the debt service requirements.

Information Technology

- We will pursue request for proposals (RFP) for our financial and emergency communications software and evaluate those options in comparison to continuing with in-house developed software.

- Upon receipt of proposals we will complete a selection/evaluation process to determine the best solution to our short and long term software needs to best serve our citizens.

Infrastructure Funding Options

- The impact fee advisory committee is continuing its effort to explore the potential of utilizing impact fees for various county needs (jail, roads, etc.).
- A road advisory committee was created to work with county staff, consultants and the commissioners to develop a comprehensive operations plan to best utilize our limited road maintenance resources and to explore new revenue sources to address our road needs.
- We will continue to work with interested neighborhood groups on formation of rural special improvement districts to improve their roads and quality of life.
- We are exploring the option of taking a local option motor vehicle tax to the voters for road maintenance and improvement funding.

Forest Service and PILT Funding

- We will continue to encourage our congressional delegation to support and make sure legislation is passed to protect our needed funding sources.
- We will prepare for reductions if we are not successful in maintaining our current funding levels.

Legislative Session Involvement and Planning

- Strategize and develop a legislative program to work with MACo and various groups to become more actively involved in seeing that good legislation is passed for the benefit of the county.
- Meet with our legislators in the off-year and prior to the next legislative session that commences in January 2009. Provide the legislators with copies of any proposed legislation of interest to the county.
- Properly report our lobbying efforts and related costs to comply with state lobbying laws.

Grant Writing

- We hired a grant writer about a year and a half ago and this effort has been very successful to date. The initial position was half time, but now we need additional services to work on more grant applications and to assist in administering the grants we have recently obtained. We plan to increase this position to a ¾ FTE effective July 1, 2008.

E-911 Consolidation Project

- We will work together with the three cities to complete the E-911 consolidation project that involves a funding agreement and major upgrades needed to create a state of the art emergency communications system for our citizens.

Growth Policy Follow-up

- Six months following adoption of the Growth Policy, the Commissioners, Planning Board and staff will initiate a review process to determine if there are needed changes to the document. Amendments will likely be discussed and considered to make this a more workable and effective planning tool for the County and its citizens.
- As with the original work and process, this review (with possible amendments) will be fully open to the public.

- The Commissioners will determine if and what amendments need to be considered and will present those to the public prior to adoption of any amendments.
- The Commissioners will support moving forward with the additional planning efforts recommended in the Growth Policy. Grant funding will be pursued to fund a portion of these planning costs.

Cell Phone System Review

- Prepare a "request for proposals" (RFP) to be advertised locally to address our cellular phone needs. The RFP will ask each vendor to review the current contracts and service billing reports and provide a proposal on an approach that best fits our needs.
- The RFP will require a cost proposal that will be presented as a comparison to the costs for our multiple contract plans.
- The RFP will require the vendors to work closely with members of our Management Team and assure that their needs and requirements are met.
- Upon receipt of proposals, evaluate and select qualified vendors to invite to participate in a selection interview process.
- On completion of the interview process, determine if there is justification to make changes in vendors and contractual arrangements currently in force. If so, initiate those changes as soon as reasonable.

Board Training

- The annual board training sessions will continue to be provided for the benefit of our many volunteer board members.

Expand Volunteerism

- Due to a noticeable slowdown in growth for the county, we will not have as much new valuation to generate needed tax revenue to run our current programs county wide. So where possible, we may need to increase volunteer support to continue to provide the level of services currently in place.

Public Relations

- We will continue our efforts to provide ongoing information to the news media and public regarding activities, projects and issues that involve the county.

Natural Resource Issues

- The County Commissioners and staff will continue to maintain good communications and an open relationship with our government partners such as Montana DNRC and the Flathead National Forest Service.
- We will continue to work actively with the Coalition of Forest Counties in lobbying efforts in Washington, DC to retain the vital federal funding relating to federal lands and forests (PILT and Secure Schools Funds).
- The County Commission will continue to provide support to efforts to educate the community in regard to impacts of forest related activities in Flathead County such as the Family Forestry Expo.

Annual Operations Report (Website)

- Each department/office will provide an annual summary report to the Board of Commissioners describing progress or achievement of goals and activities as per their individual business plans. This will need to be in a very concise format.
- The individual department/office reports will be edited as necessary and consolidated in to a single document that will be distributed as directed by the Board of Commissioners.
- At a minimum, the report will be available on the county's website and provided to all of the county libraries.

Capital Improvement Plan

The county prepares a 5-year Capital Improvement Program (CIP) which is summarized within the Annual Operating Budget. The CIP is a multi-year capital improvement plan that forecasts, but does not obligate, future spending for all anticipated capital projects. The CIP is developed and updated annually. The proposed five-year CIP uses conservative financial forecasts and reflects only those projects with the highest priority and most realistic expectation for completion during the next five years. This approach avoids raising expectations for projects that are not well defined or that the operating budget will not support.

The Annual Budget Process includes a re-evaluation of the capital projects included in the CIP for the coming year as well as the anticipated funding sources for the projects. If approved in the Annual Budget Process, the capital items appear in the Annual Operating Budget, which constitutes the formal spending authority. The capital items included in the Annual Operating Budget, represent the "Capital Budget".

A summary of the significant capital projects included in the FY 09 Operating Budget is included in the Appendix of the budget on page M-1.

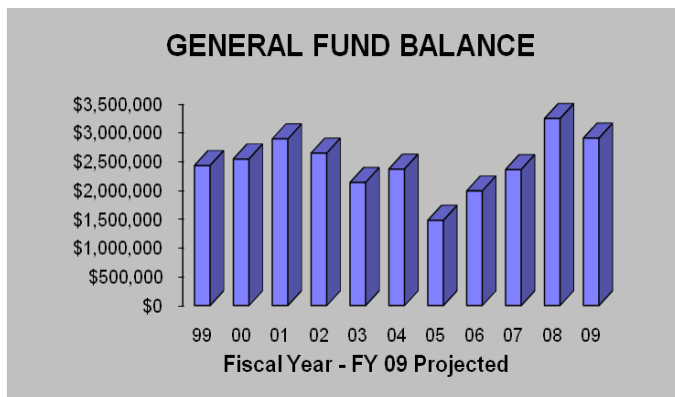
STAFFING CHANGES

The final budget includes a net overall increase of .95 full-time equivalent employees (FTE). The chart on the following page shows the change in FTE for the budget year for each department. Also included in the appendix on page M-1, is a chart that shows the county's FTE over the last four years.

Staffing Changes (FTE)	
DEPARTMENT/DIVISION	Net Increase (Decrease)
Records Preservation	0.20
Treasurer	0.25
County Attorney	0.05
Information Technology	(0.05)
Office of Emergency Services	1.00
Sheriff	(2.50)
Juvenile Detention	(0.10)
9-1-1	0.20
Roads	(0.80)
Bridges	(0.70)
Weeds	0.05
Junk Vehicle	0.05
Solid Waste	(0.55)
Mosquito	0.92
Animal Control	1.00
Health	(0.44)
Public Health Grants	(0.12)
Social & Economic Grants	1.15
Fair	1.25
Parks	0.09
TOTAL CHANGE	0.95

BUDGETARY TRENDS

Shown below are a series of key financial indicators and budgetary trends that affect the ability of the county



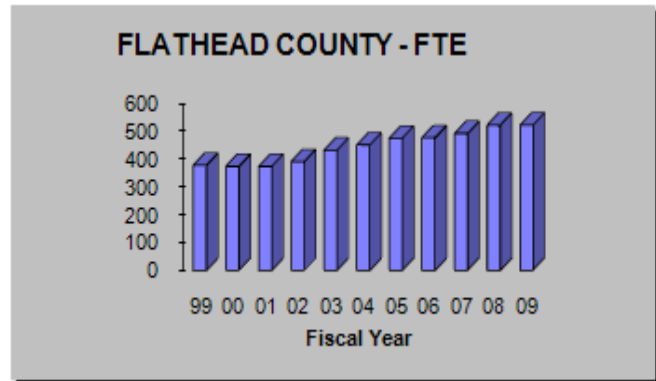
to sustain current service levels, while maintaining financial stability.

Fund balance measures the net financial resources available to finance expenditures of future periods. Rating agencies examine fund balance when considering the credit quality of the County. The general fund balance represents the best indicator of the county's overall financial health. Shown by the graph on the left is the county's

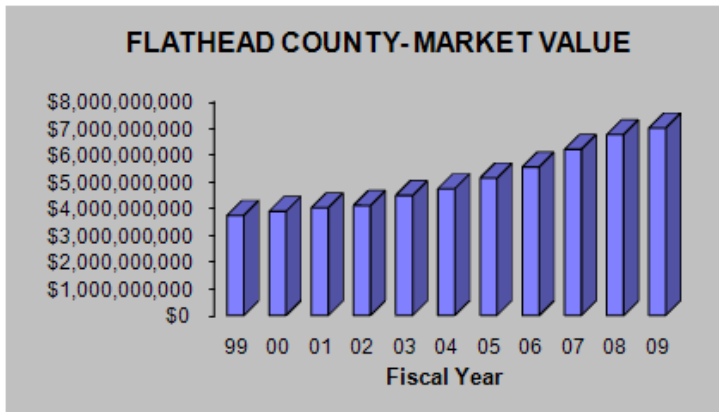
actual general fund balance from FY 99 – FY 08. Fund balances for FY 09 are projected. After the

reduction in FY 05 the general fund balance has returned to historical levels. We ended FY 08 with an ending general fund balance of \$3,255,579. The county's 2009 budget continues to be structurally balanced and the county will maintain a safe general fund reserve at the end of FY 09.

Full-time equivalent employees (FTE) is a key indicator mirroring the growth of the Flathead County. As shown by the graph on the right, total FTE grew from 379 in fiscal year 1999 to 524.56 in 2009, for a 38 percent increase over this period. One of the principal challenges continually facing the county is the on-going financial obligation of new employees necessary to meet the service demand that accompanies the rapid growth of the county. All indications are that the growth in Flathead County has experienced in the past will continue for the foreseeable future.



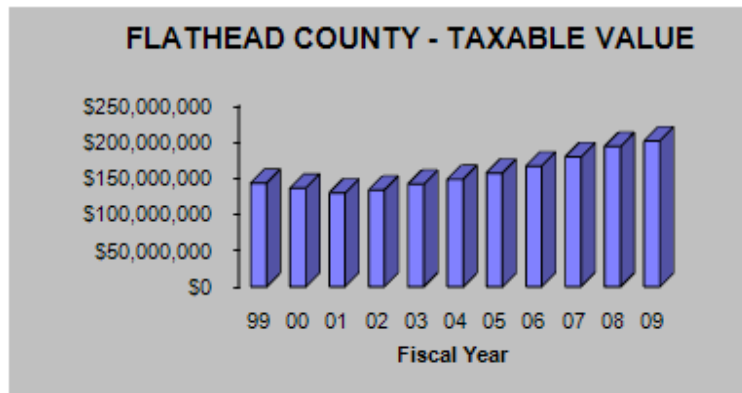
As a general rule, all real and personal property in the State of Montana is subject to taxation by the State and its counties, municipalities and other political subdivisions. This rule is subject to exceptions in the case of specified classes of exempt property. Property is classified according to its use and character, and the different classes of property are taxed at different percentages of their market valuation.



Property valuations are based on comprehensive appraisals of all taxable property performed by the Department of Revenue each year. The Department of Revenue certifies market and taxable values to each county on or before the 1st Monday in August. The trend of the Flathead County market value is shown by the graph on the left. As shown by the graph, the county's market value has increased from \$3.7 billion in fiscal

year 1999 to \$7.0 billion in fiscal year 2009, for an 87% increase over this period. The market value of property in the County reflects the rapid growth the County is experiencing. The graph of taxable values that follows, reflects the county's ability to raise general tax revenue necessary to support the growing demand for government services.

The taxable value for property is determined by applying a statutorily established percentage ratio to the market value of the property, according to its property classification. The applicable ratio for most commercial and residential real properties is currently 2.5%. Shown on the right is a history of the county's actual taxable value since 1999. The increase in taxable values does not coincide with the increase in market values because of adjustments to the percentage ratio by the Montana



Legislature and by changes in tax policy implemented through property tax amendments. The adjustments by the Legislature were designed to prevent local taxes from increasing at the same rate as property values. The taxable values (as opposed to market values) more accurately reflect the ability of the county to increase tax revenues.

ECONOMIC FACTORS

The Bureau of Business and Economic Research (BBER) is the research and public service branch of the University of Montana's School of Business Administration. The Bureau is regularly involved in a wide variety of activities, including economic analysis and forecasting. Excerpts from the Bureau's forecasts contained in the Spring 2007 issue of the Montana Business Quarterly relating to Flathead County are restated below.

Flathead County has been one of the consistently fast-growing counties in the state. It has a diverse economic base, which includes manufacturing (primary metals, wood products, and high-tech), transportation (railroads), nonresident travel, and the federal government (including the USDA Forest Service and the National Park Service). Kalispell is now a second order trade and service center, and this sector was one of the major contributors to 2001-2004 growth. Flathead County was one of the few areas in Montana to feel major impacts of the last recession, primarily in high-tech manufacturing. The Columbia Falls Aluminum Company remains open and operating, but at lower levels than earlier. After the trade center industries, the largest contributors to growth between 2001 and 2004 were the federal government and nonresident travel. Newly released Census Bureau data show the 2005 Flathead County median home price was \$183,000. The construction and real estate industries remain very strong in Flathead County, and there could be sizable impacts if they slow.

The Bureau projects that the increase in Flathead County's population will double the population increase of the state as a whole through 2010, as shown by the graphic on the following page.

**Table 3
Population, Montana and Regions, 1990-2010**

	Thousands of Persons				Average Annual Percent Change		
	1990	2000	2005	2010	1990-2000	2000-2005	2005-2010
Montana	800	902	936	974	1.2%	0.7%	0.8%
West	335	400	416	445	1.8%	0.8%	1.4%
Missoula	79	95	100	106	1.9%	1.0%	1.2%
Flathead	60	75	83	90	2.3%	2.0%	1.6%
Silver Bow	34	35	33	37	0.3%	-1.2%	2.3%
Lewis and Clark	48	56	58	61	1.5%	0.7%	1.0%
Ravalli	25	36	40	43	3.7%	2.1%	1.5%
Rest of West	89	103	102	108	1.5%	-0.2%	1.1%
North-Central	181	183	183	184	0.1%	0.0%	0.1%
Cascade	78	80	80	82	0.3%	0.0%	0.5%
Hill	18	17	16	17	-0.6%	-1.2%	1.2%
Fergus	12	12	12	13	0.0%	0.0%	1.6%
Rest of North-Central	73	74	75	72	0.1%	0.3%	-0.8%
Southeast	284	319	337	345	1.2%	1.1%	0.5%
Yellowstone	114	128	137	145	1.2%	1.4%	1.1%
Gallatin	51	68	78	86	2.9%	2.8%	2.0%
Richland	11	10	9	11	-0.9%	-2.1%	4.1%
Custer	12	12	11	12	0.0%	-1.7%	1.8%
Rest of Southeast	96	101	102	91	0.5%	0.2%	-2.2%

Sources: Bureau of the Census, U.S. Department of Commerce; Bureau of Business and Economic Research, The University of Montana-Missoula.

Closing

We had many goals in mind when we decided to create this new performance budget—the most important of which were improved financial planning and the improvement of county services through Performance Budgeting. It takes most governments several years to develop a true Performance Budget. Thanks to the efforts of our department managers, we created a very good Performance Budget in one year. Department managers did an outstanding job of describing their programs, laying out goals and objectives for their departments, establishing quantifiable performance measures and identifying quantifying workload indicators. The focus of this budget is not the traditional approach of describing of how the county intends to spend taxpayer dollars, but rather the more progressive approach using a Performance Budget which describes what the county departments intend to accomplish and what services will be provided to Flathead County citizens. Furthermore, our focus will be on continual improvement and efficiency in the provision of these public services. There are obvious improvements we can make in this document and we are challenging ourselves to do just that as it continues to develop in future years.

I would like to personally thank all of the department managers who provided the excellent information for this budget document and especially Joe Garza who worked long hours to make this new budget document a reality.

Respectfully

Mike Pence, County Administrator